

Senator Young's Introductory Remarks

Thank you to the witnesses for being here today. It is imperative that we continue to evaluate how our tax system impacts small businesses to ensure we are facilitating opportunities for growth while cutting down on unnecessary complexity in the tax code.

The reason for today's roundtable is simple: startups and small businesses drive innovation. We cannot expect to have a dynamic economy if we do not support our small businesses and their role in developing new products and technologies. Unfortunately, however, our innovative small businesses are facing crushing tax liabilities as a result of the expiration of full and immediate expensing for research and development expenditures under Section 174 of the tax code.

Starting in 2022, businesses are now required to amortize their R&D investments over five years. While this change impacts businesses of all sizes, it is particularly harmful to small businesses who cannot readily absorb the sudden – and in many cases unexpected – increased tax liability. Amortization dramatically decreases small businesses' cash on hand and diminishes the amount of capital they are able to invest in R&D in future years. I have personally heard from countless Hoosier small businesses who are being forced to make difficult choices, such as canceling planned expansions or even laying off workers, as a result of the tax hit from R&D amortization.

The shift to amortization comes at a time when our foreign competitors, namely China, are continuing to *increase* their R&D incentives and invest in the development of critical technologies. China already offers

a so-called “super deduction” for R&D investments. If a company invested \$100 in R&D in the United States in 2022, they only got to deduct \$10 for that year. However, if that company invested that \$100 in China, they would have been able to deduct \$200 – or *twenty times* as much “year-incurred” benefit as they’d receive in the U.S.

And yet, just last week, it was reported that China is considering *additional* tax incentives to encourage manufacturing companies to increase innovation in an effort to counter the United States. We cannot sit idly by and allow our competitors to surpass our great nation in the development of critical products and technologies.

To address this issue, Senator Hassan and I reintroduced our American Innovation and Jobs Act earlier this year. This bipartisan bill would restore Section 174 full and immediate expensing, thereby incentivizing small businesses to continue to invest in R&D and propel the U.S. economy forward.

I want to thank everyone here who has supported and advocated for this legislation. Time is of the essence. As we will hear today, our small businesses are struggling, and it is critical that we pass my American Innovation and Jobs Act *this year* to ensure we continue to out-compete and out-innovate our international rivals. Thank you.